

**TECHNICAL COOPERATION PROGRAM IN SUPPORT OF
PRIVATE INVESTMENT IN INFRASTRUCTURE**

(EC-0180)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Ecuador

EXECUTING AGENCY: Consejo Nacional para la Modernización del Estado (CONAM)

AMOUNT AND SOURCE: IDB: US\$13.5 million (OC)
Local counterpart funding: US\$ 2.7 million
Total: US\$16.2 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Grace period: 5 years
Disbursement period: 5 years
Interest rate: variable
Inspection and supervision: 1.00%
Credit fee: 0.75%
Currency: United States dollars from the Single Currency Facility

OBJECTIVES: The objectives of the program are: (i) to strengthen the capacity of public agencies to fulfill their regulatory functions, grant concessions and formulate policies in subsectors of private sector interest; and (ii) to identify and prepare the technical, legal, economic, financial, social and environmental, and institutional aspects of privatization and investment projects that will attract private capital.

DESCRIPTION: The program is divided into two components: (i) formulating, implementing and supervising regulatory and sector policy mechanisms; and (ii) preparing specific projects to be offered to private investors.

Regulation and sector policies (US\$1.39 million). In the ports sector, the authorities need to conduct studies to define a concessions strategy and then to develop concessions for the ports of Manta, Esmeraldas and Bolívar, and the fruit terminal at the Port of Guayaquil. With respect to airports, financing needs include institutional restructuring to define and locate regulatory functions relating to infrastructure, services, security and air transport, and to develop the policy-making functions assigned to the Civil Aviation Council. In addition, there is a need in the land transport subsector to identify ways of improving the coordination of regulatory functions between regulatory bodies in the areas of ports, marine transport and aviation, with a view to eventually incorporating the formulation of

transportation policies.

Preparation of specific projects (US\$12.1 million).

This component will finance technical studies and specialized consulting services for structuring the concession and privatization processes. In the case of studies, funding will be provided for feasibility analyses, traffic, basic and final designs, social and environmental audits for existing projects and social and environmental impact assessments of new projects. With respect to support for process structuring, funding will be provided for specialized advisory services, investment consortia and/or banks, legal advisory services and overall support in negotiating and evaluating financial offers and options.

Specifically, funding will be provided in the electricity sector to prepare privatizations and award concessions for electrical generation and distribution projects and firms, as well to develop guarantee instruments for power generating projects.

In the highways sector, funding will be provided for technical, environmental and social studies and the concessions structuring process. In contrast to other sectors, the proper preparation of highway concessions requires a greater level of technical detail, including the preparation of basic and final designs. Accordingly, the program will finance their preparation as well. With regard to sanitation services, projects will be developed and documentation prepared for concessions in various municipalities in the provinces of Esmeraldas and Manabí, in the municipalities of Cuenca, Península de Santa Elena, and various cities across the country. In the ports area, feasibility studies will be prepared for a container handling terminal project in the port of Manta, and situation evaluations will be performed for FLOPEC, TRANSNAVE and Flota Mercante Gran Colombiana, to define alternative forms of private participation. In the airports area, additional resources are needed to review and complete the evaluation of strategic partners, and the negotiation and award of contracts for the airports of Quito and Guayaquil, and to initiate studies on expanding and relocating other airports serving domestic traffic, including the airport of Cuenca.

Organization and execution. The program will be organized under the administration and coordination of CONAM. A Project Technical Committee will be set up, with responsibility for strategic management of the program. The beneficiary entities will be directly responsible for carrying out each of the activities under both components. The execution period will be four years, on the basis of annual operating plans, the first of which was agreed on between the Bank and CONAM. Specifications for the activities to be carried out in subsequent years will be worked out prior to the beginning of each year, once activities and compliance with goals established for the previous year have been assessed. During the

first two years of the program, technical missions will be organized every six months to review the extent to which the goals agreed on have been attained. During the last two years, these missions will review the project on an annual basis only.

Because the program will embrace activities in various sectors, the beneficiaries will be: CONAM, the National Electricity Council (CONELEC), the Ministry of Public Works (MOP), the National Transit and Land Transport Council (CNTTT), the Merchant Marine Department (DIGMER), the Port Authorities of Guayaquil, Manta, Esmeraldas and Bolívar, the Civil Aviation Directorate (DAC), provinces, municipalities and cities across the country.

**ROLE OF THE
PROGRAM IN THE
BANK'S STRATEGY
FOR THE COUNTRY
AND THE SECTOR:**

One of the objectives of the Bank's strategy is to improve the climate for private investment in infrastructure. This program is consistent with that strategy and sector strategies, since it will support the creation of regulatory frameworks and an orderly process for granting concessions, thereby opening up new opportunities for private investment and ensuring that the public sector has the capacity to supervise and monitor private participation.

**ENVIRONMENTAL
REVIEW AND SOCIAL
ASPECTS:**

During the first six months of the program, as part of the activities of the regulation and sector policies component, advisory services will be funded to support the national authorities with the institutional arrangements for establishing, on the basis of the consultants' recommendations, the levels of responsibility of the different national and regional agencies in monitoring social and environmental commitments; and for drawing up an action plan of social, environmental, and institutional strengthening in the infrastructure sectors, to be financed in year two of the program. As part of the project preparation component, social and environmental audits and assessments will be performed, using sector criteria developed as part of the program preparations.

BENEFITS:

Many of the projects to be prepared under the program entail substantial investments, which will add to the country's production base and will have a positive impact on capital markets and local credit, and expand opportunities for domestic savings. These investments will create important sources of additional employment, resulting in increased access to basic services for people who still have no such coverage.

The State, provinces, municipalities and cities will also benefit, either through an increase in the tax base resulting from the new investments, or in some cases through earnings from concession fees. In addition, public entities will be better able to meet their social obligations, by being relieved of the burden of new infrastructure investments that they would have to make in the absence of private participation.

RISKS:

This program will be particularly difficult to administer and coordinate, in light of the variety of subsectors involved and the great number of participating entities. To help ensure proper execution, a Project Technical Committee and a Coordination and Administration Unit have been established, and institutional strengthening will be provided for the beneficiary sector units. In addition, the program executing agency, CONAM, has built up a sound track record in administering and coordinating operations of this type: in the last five years it has successfully executed two major technical-cooperation programs with the World Bank, and four with the IDB. That this is a program with annual operating plans examined and approved by the Bank, with monitoring by administration missions, on a semiannual basis during the first two years and once a year in the final two years, will permit timely adjustments to be made to keep it on track towards its objectives. Moreover, the inclusion of projects within the operating plans will require careful apportioning of responsibilities between CONAM and the participating entities, and the establishment of clear operating mechanisms to administer and monitor these responsibilities.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement: The borrower through the executing agency shall demonstrate to the Bank that the following units have been set up within CONAM with the functions and personnel previously agreed on: (i) the Project Technical Committee (see paragraph 3.27), and (ii) the Program Coordinating and Administrative Unit and that the Program Coordinator has been appointed (see paragraph 3.30).

Special conditions concerning execution: (i) within six months after the date of contract signature, that a social and environmental program be submitted, setting out the levels of responsibility of the different national and regional agencies in monitoring the social and environmental commitments contained in the concession and privatization agreements as well as an action plan for a social, environmental, and institutional strengthening program for the infrastructure sectors (see paragraph 3.8); (ii) before the consultants are selected and hired to provide social and environmental advisory services, that terms of reference which include the relevant sector criteria be submitted (see paragraph 3.9); (iii) before consultants are selected and recruited to prepare the privatization and concession documentation, that terms of reference which include measures for mitigating adverse social and environmental effects and their estimated costs, and the final documentation for the privatization and concessions be submitted (see paragraph 3.9); (iv) within 30 days of the anniversary date of program execution, that an annual plan of operations be prepared in accordance with guidelines and criteria previously agreed on with the Bank (see paragraphs 3.22 and 3.29); (v) within 45 days after the end of each semiannual

period of project execution during the first two years of the program, that technical meetings be held semiannually to evaluate the progress of the program (see paragraph 3.36); (vi) within 60 days after the completion of years three and four of the program and during the last two years thereof commencing from year two of the program, that technical meetings be held every year to review the progress of the program (see paragraph 3.36); (vii) that an interim evaluation be submitted within 24 months after the date of contract signature and a final report within 60 months after the aforesaid date (see paragraph 5.1); and (viii) within 30 days after the close of each semiannual period during program execution, that a semiannual progress report be prepared in accordance with the guidelines and criteria previously agreed on with the Bank.

**POVERTY TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

Not applicable.

**EXCEPTIONS TO
BANK POLICY:**

In the case of specialized consulting services (investment banks or consortia led by investment banks) for privatization and concessions involving contracts greater than US\$200,000, it is recommended that these be subject to a combined technical and economic evaluation procedure, in light of the peculiar features of the international market for such services, where price is a determining factor in the awarding of contracts (see paragraph 3.34). The weighting of the economic factor should not exceed 20% of the total evaluation.

PROCUREMENT:

It is recommended that the evaluation and approval by the Bank of activities relating to the hiring of consulting services valued at up to the equivalent of US\$30,000, be performed on an ex post rather than ex ante basis. During program execution, this recommendation will be examined on the basis of experience to determine whether its use should be continued (see paragraph 3.31).

The threshold above which procurement of goods must be done by means of international competitive bidding is US\$250,000. For procurement below this threshold, the system for awarding contracts for small goods agreed on with the country on September 15, 1992, will apply. No construction works will be financed with the proceeds of the program financing (see paragraph 3.35).